

## **Remarks by Senator Claire McCaskill On the Senate Floor, May, 20, 2010**

Issues that are pending on this bill that we're currently considering. There are, unfortunately, many of them that we will not get to. But I did want to take a minute to sound the alarm about a very important topic that is in all likelihood not going to get addressed, but something that everyone needs to be aware of because it is a subprime mess in the making. And that is the area of reverse mortgages.

You can't turn on TV these days without seeing an advertisement from someone about an important government benefit that you should take advantage of. Senator Kohl has been great to work with on the committee on aging, and we had an oversight hearing on reverse mortgages. In fact, we conducted one of them in St. Louis.

These are really tricky financial vehicles. Now, keep in mind who they're going to be marketed to. They're being marketed to seniors. So seniors are being told, enter into a reverse mortgage and you can get your house and you never have to worry about paying it back, and everything's great. The problem is, they are very, very expensive, and not everyone is well-suited for a reverse mortgage. In some instances, a reverse mortgage might be appropriate. But frankly, they are certainly not appropriate if someone is selling you a reverse mortgage when you are 80 years old and turns around and sells you an annuity in the same sales pitch. And believe it or not, we had testimony from families. That's exactly what had happened to them. There is not enough consumer protection in the area of reverse mortgages. Now here is the other shoe that's going to drop. Unlike the subprime mess, which was -- occurred because people were selling mortgages to people that were not suited for them and they were trying to sell them because they had no skin in the game; they didn't care if they were ever paid back, they were making money by selling the mortgages and had no risk if the loans weren't paid back. Guess what? Same thing.

The people selling these mortgages have no risk. Now, in the subprime mess, the risk was transferred to all these financial institutions that sliced and diced these mortgages and securitized them and sold them short, sold them long. Guess who takes the risk in a reverse mortgage? Every stinking dime? The federal government, which is shorthand for the taxpayers of this great country. So if someone does a phony appraisal on a reverse mortgage and says the property is worth more than it is and they get the money out of there and -- or if property values were to drop again in 15 or 20 years when these mortgages come due, guess what happens? The federal government and the federal taxpayers get left holding the bag for every darn dime. Now, clearly this is a problem. And the amendment that I had was going to address some of the deficiencies in this area as it relates to consumer protection and put a suitability standard in. And here's the other scary part about this story, this cautionary tale: they've started securitizing reverse mortgages.

Securitizing is the process that we saw in subprimes when they gathered all these subprime mortgages together and they said, okay, let's slice them all up and we'll do it at different levels, and this top level is not very risky and we'll slap a triple-A on that, and then maybe down at the bottom we'll get a double-A. Guess what's happening to reverse mortgages? All of a sudden we're seeing an explosion in the securitization of reverse mortgages. In the security market for these mortgages, about -- in the past year the security market for reverse mortgages went, in one year, from \$1.5 billion to \$13 billion. In the last 12 months. In one year. Now, that gives you some indication of what's happening here. Now, I know that we may not be the brightest lights around here, and I know that sometimes we may not get it, but goodness gracious, that ought to set off some alarm bells somewhere.

And so I urge my colleagues to take a look at the reverse mortgage problem. I urge them to convey to their seniors in their state through the senior centers and other ways that you can communicate with your constituents to be careful of reverse mortgages. They are very expensive. I really didn't make a true confession here. I probably ought to do that. There's a reason why this place likes reverse mortgages. We're busy trying to pay-as-you-go-for -- we're busy trying to find pay-fors in our budget. Guess who gets a cut of the fees on a reverse mortgage? The federal government. So one part of this place loves the idea that more reverse mortgages are occurring. In fact, we took the cap off how many could occur for this year because we can count that money and spend it in the appropriations process. Just hoping that maybe we're not around when we have to pay the piper at the end of the rainbow when perhaps the value of that home is not sufficient when sold to pay off the loan. So I am disappointed that it appears that we're not going to get to this amendment. I will continue to work on this issue. I urge my colleagues to continue to work on this issue, and I will say this: that if this body tries to lift the cap and allow unlimited reverse mortgages out there this year under the guise of, oh, we need to be doing this because it helps the economy or it's going to help the -- no, no, no, no. I say "no."

We need to go back to a cap on reverse mortgages so we have a firm handle on what potential liabilities down the road could be to the taxpayers of this country for this program.